

CITY OF LITTLE RIVER, KANSAS
SPECIAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

David A. O'Dell, CPA, LLC
Certified Public Accountant
McPherson, Kansas 67460

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CITY OF LITTLE RIVER, KANSAS
SPECIAL FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Little River, Kansas

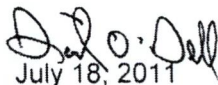
I have audited the accompanying financial statements of the City of Little River, Kansas, as of and for the year ended December 31, 2010 and 2009 and the individual fund financial statements of the City as of and for the year ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, and the *Kansas Municipal Audit Guide*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for our opinion.

As described in Note 1, the City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the City as of December 31, 2010 and 2009, or the results of its operations, or the cash flows of its proprietary fund types for the year then ended.

However, in my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of the City as of December 31, 2010 and 2009, and its cash receipts and expenditures, for the year then ended on the basis of accounting described in Note 1. The individual fund financial statements as of and for the year ended December 31, 2010 and 2009, present fairly, in all material respects, the unencumbered cash balances, cash receipts and expenditures on the basis of accounting described in Note 1.


July 18, 2011

McPherson, Kansas

CITY OF LITTLE RIVER, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2010

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
GENERAL OPERATING FUND:							
General Operating Fund	\$ 227,526	\$ -	\$ 149,093	\$ 230,818	\$ 145,801	\$ 25,679	\$ 171,480
SPECIAL REVENUE FUNDS:							
Library Fund	326	-	8,016	8,342	-	-	-
Employee Benefit Fund	2,708	-	14,586	14,586	2,708	-	2,708
Special Highway Fund	-	-	13,953	13,953	-	-	-
Fire Department Fund	12,439	-	563	50	12,952	-	12,952
Total Special Revenue Funds	15,473	-	37,118	36,931	15,660	-	15,660
CAPITAL PROJECT FUND:							
Municipal Equipment Reserve	20,000	-	-	-	20,000	-	20,000
Total Capital Project Funds	20,000	-	-	-	20,000	-	20,000
ENTERPRISE FUNDS:							
Gas Utility Fund	62,025	-	252,586	233,030	81,581	48,838	130,419
Water Utility Fund	179,326	-	110,774	167,193	122,907	88,931	211,838
Sewer Utility Fund	48,038	-	62,294	76,665	33,667	22,340	56,007
Solid Waste Fund	12,527	-	27,575	26,670	13,432	2,212	15,644
Total Enterprise Funds	301,916	-	453,229	503,558	251,587	162,321	413,908
Total Primary Government	564,915	-	639,440	771,307	433,048	188,000	621,048
COMPONENT UNIT:							
Library Board	23,400	-	21,455	23,679	21,176	-	21,176
Total Reporting Entity (Excluding Agency Funds)	\$ 588,315	\$ -	\$ 660,895	\$ 794,986	\$ 454,224	\$ 188,000	\$ 642,224

The notes to the financial statements are an integral part of this statement.

CITY OF LITTLE RIVER, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2010

STATEMENT 1
Page 2 of 2

COMPOSITION OF CASH:	
Checking Accounts - City Clerk	\$ 334,644
Certificates of Deposit - City Clerk	273,452
Checking and Savings - Fire Department	12,952
Total Cash - Primary Government (Excluding Agency Funds)	621,048
Checking Accounts - Component Unit	21,176
Total Cash - Component Units	21,176
Total Reporting Entity (Excluding Agency Funds)	\$ 642,224

CITY OF LITTLE RIVER, KANSAS

(Budgeted Funds Only)

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010

	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance- Favorable (Unfavorable)</u>
GENERAL OPERATING FUND					
General Operating Fund	\$ 386,480	\$ -	\$ 386,480	\$ 230,818	\$ 155,662
SPECIAL REVENUE FUNDS:					
Library Fund	8,900	-	8,900	8,342	558
Employee Benefit Fund	15,000	-	15,000	14,586	414
Special Highway Fund	16,340		16,340	13,953	2,387
ENTERPRISE FUNDS:					
Gas Utility Fund	389,384	-	389,384	233,030	156,354
Water Utility Fund	249,108	-	249,108	167,193	81,915
Sewer Utility Fund	116,661	-	116,661	76,665	39,996
Solid Waste Fund	39,359	-	39,359	26,670	12,689

CITY OF LITTLE RIVER, KANSAS
GENERAL OPERATING FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Actual	Current Year Budget	Variance- Favorable (Unfavorable)
Cash Receipts:				
Ad Valorem Taxes -				
Current Tax	\$ 66,410	\$ 62,592	\$ 66,033	\$ (3,441)
Delinquent Tax	1,848	3,179	-	3,179
Motor Vehicle Tax	17,776	16,995	16,339	656
Recreational Vehicle Tax	192	303	232	71
16/20M Vehicle Tax	-	-	145	(145)
ME Tax Reduction	449	-	3,000	(3,000)
Health and Environment KDHE	-	-	4,000	(4,000)
Sales Tax	43,296	35,735	31,000	4,735
Compensating Use Tax	-	-	6,000	(6,000)
Licenses, Permits, and Fees -				
Franchise	10,568	14,117	12,000	2,117
Dog Licenses	676	1,596	1,000	596
Building Permits	70	80	500	(420)
Fines	3,804	2,689	3,000	(311)
Interest Income	4,159	3,274	11,000	(7,726)
Utility Penalties Collected	5,643	5,783	-	5,783
Miscellaneous Income	4,968	2,750	7,000	(4,250)
Transfers In -				
Water Utility Fund	-	-	10,000	-
Total Cash Receipts	159,859	149,093	\$ 171,249	\$ (12,156)
Expenditures:				
General Government -				
Personal Services	36,251	30,175	\$ 40,000	\$ 9,825
Contractual	24,866	40,760	39,500	(1,260)
Commodities	13,651	12,670	21,000	8,330
Capital Outlay	-	59,314	175,980	116,666
Public Safety -				
Personal Services	41,106	41,891	42,000	109
Contractual	174	-	-	-
Commodities	-	2,598	-	(2,598)
Capital Outlay	-	107	-	(107)
Street Lights	8,074	8,403	-	(8,403)
Streets	32,712	29,925	48,000	18,075

The notes to the financial statements are an integral part of this statement.

CITY OF LITTLE RIVER, KANSAS
GENERAL OPERATING FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance- Favorable (Unfavorable)
		Actual	Budget	
Expenditures (Continued):				
Parks and Recreation	408	132	10,000	9,868
Appropriations -				
Library	-	-	-	-
Historical Library	20	593	-	(593)
Transfer Out -				
Equipment Reserve	10,000	-	10,000	10,000
Other -				
Dump	-	65	-	(65)
Sidewalk				-
Other	6,404	4,185	-	(4,185)
Total Expenditures	173,666	230,818	<u>\$ 386,480</u>	<u>\$ 155,662</u>
Receipts Over (Under) Expenditures	(13,807)	(81,725)		
Unencumbered Cash, Beginning	241,333	227,526		
Unencumbered Cash, Ending	<u>\$ 227,526</u>	<u>\$ 145,801</u>		

**CITY OF LITTLE RIVER, KANSAS
SPECIAL REVENUE FUND - LIBRARY FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010**
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance- Favorable (Unfavorable)
	Actual	Actual	Budget	
Cash Receipts:				
Ad Valorem Taxes -				
Current Tax	\$ 6,081	\$ 6,051	\$ 6,383	\$ (332)
Delinquent Tax	188	324	-	324
Motor Vehicle Tax	1,915	1,612	1,537	75
Recreational Vehicle Tax	20	29	22	7
16/20M Vehicle Tax	42	-	14	(14)
	<u>8,246</u>	<u>8,016</u>	<u>\$ 7,956</u>	<u>\$ 60</u>
Total Cash Receipts				
Expenditures:				
Library Board	8,100	8,342	\$ 8,900	\$ 558
	<u>146</u>	<u>(326)</u>		
Receipts Under Expenditures				
Unencumbered Cash, Beginning	180	326		
Unencumbered Cash, Ending	<u>\$ 326</u>	<u>\$ -</u>		

CITY OF LITTLE RIVER, KANSAS
SPECIAL REVENUE FUND - EMPLOYEE BENEFIT FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance- Favorable (Unfavorable)
	Actual	Actual	Budget	
Cash Receipts:				
Ad Valorem Taxes -				
Current Tax	\$ 10,106	\$ 11,334	\$ 11,956	\$ (622)
Delinquent Tax	284	539	-	539
Motor Vehicle Tax	2,920	2,665	2,555	110
Recreational Vehicle Tax	31	48	36	12
16/20M Vehicle Tax	70	-	23	(23)
	<u>13,411</u>	<u>14,586</u>	<u>\$ 14,570</u>	<u>\$ 16</u>
Total Cash Receipts				
Expenditures:				
FICA and Medicare	-	4,825	\$ 5,000	\$ 175
KPERS	3,316	3,408	3,000	(408)
Unemployment	-	-	-	-
Workers Compensation Policy	7,868	6,353	7,000	647
	<u>11,184</u>	<u>14,586</u>	<u>\$ 15,000</u>	<u>\$ 414</u>
Total Expenditures				
Receipts Over (Under) Expenditures	2,227	-		
Unencumbered Cash, Beginning	<u>481</u>	<u>2,708</u>		
Unencumbered Cash, Ending	<u>\$ 2,708</u>	<u>\$ 2,708</u>		

CITY OF LITTLE RIVER, KANSAS
SPECIAL REVENUE FUND - SPECIAL HIGHWAY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance- Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts:				
State of Kansas - Fuel Tax	\$ 9,607	\$ 13,953	\$ 14,960	\$ (1,007)
Expenditures:				
Contractual	9,607	13,953	\$ 16,340	\$ 2,387
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	-	-		
Unencumbered Cash, Ending	\$ -	\$ -		

**CITY OF LITTLE RIVER, KANSAS
SPECIAL REVENUE FUND - FIRE DEPARTMENT FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2010**
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	<u>Prior Year Actual</u>	<u>Current Year Actual</u>
Cash Receipts:		
City of Little River - Meetings	\$ 490	\$ 490
Interest	<u>11</u>	<u>73</u>
Total Cash Receipts	501	563
Expenditures:		
Contractual	<u>50</u>	<u>50</u>
Receipts Over (Under) Expenditures	451	513
Unencumbered Cash, Beginning	<u>11,988</u>	<u>12,439</u>
Unencumbered Cash, Ending	<u><u>\$ 12,439</u></u>	<u><u>\$ 12,952</u></u>

CITY OF LITTLE RIVER, KANSAS
CAPITAL PROJECT FUND - EQUIPMENT RESERVE FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2010
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts:		
Transfer from General Fund	\$ 10,000	\$ -
	<hr/>	<hr/>
Total Cash Receipts	10,000	-
	<hr/>	<hr/>
Expenditures:		
Capital Outlay	-	-
	<hr/>	<hr/>
Total Expenditures	-	-
	<hr/>	<hr/>
Receipts Over Expenditures	10,000	-
	<hr/>	<hr/>
Unencumbered Cash, Beginning	10,000	20,000
	<hr/>	<hr/>
Unencumbered Cash, Ending	\$ 20,000	\$ 20,000
	<hr/> <hr/>	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

**CITY OF LITTLE RIVER, KANSAS
ENTERPRISE FUND - GAS UTILITY FUND**

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance- Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts:				
Charges for services	\$ 264,425	\$ 247,769	\$ 327,000	\$ (79,231)
Turn On Fees	1,690	1,450	2,000	(550)
Sales Tax	3,339	3,191	4,000	(809)
Other	1,355	176	2,000	(1,824)
Total Cash Receipts	270,809	252,586	\$ 335,000	\$ (82,414)
Expenditures:				
Personal services	26,815	30,672	\$ 36,000	\$ 5,328
Contractual	50,267	61,245	37,000	(24,245)
Commodities	163,262	137,925	240,000	102,075
Capital Outlay	-	-	70,384	70,384
Sales Tax	3,260	3,138	6,000	2,862
Other	63	50	-	(50)
Total Expenditures	243,667	233,030	\$ 389,384	\$ 156,354
Receipts Under Expenditures	27,142	19,556		
Unencumbered Cash, Beginning	34,883	62,025		
Unencumbered Cash, Ending	\$ 62,025	\$ 81,581		

The notes to the financial statements are an integral part of this statement.

CITY OF LITTLE RIVER, KANSAS
ENTERPRISE FUND - WATER UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance- Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts:				
Charges for services	\$ 93,929	\$ 107,707	\$ 95,000	\$ 12,707
Turn On Fees	1,790	1,640	1,500	140
Water Protection Fee	718	1,005	-	1,005
Sales Tax	336	410	1,500	(1,090)
Reimbursed Expenses	135	12	100	(88)
Total Cash Receipts	96,908	110,774	\$ 98,100	\$ 12,674
Expenditures:				
Personal services	49,813	46,674	\$ 50,000	\$ 3,326
Contractual	24,893	40,338	30,000	(10,338)
Commodities	11,369	12,610	17,000	4,390
Capital Outlay	-	65,000	140,108	75,108
Sales Tax	332	422	2,000	1,578
Other	2,045	2,149	-	(2,149)
Transfer Out - General Operating Fund	-	-	10,000	-
Total Expenditures	88,452	167,193	\$ 249,108	\$ 71,915
Receipts Over Expenditures	8,456	(56,419)		
Unencumbered Cash, Beginning	170,870	179,326		
Unencumbered Cash, Ending	\$ 179,326	\$ 122,907		

CITY OF LITTLE RIVER, KANSAS
ENTERPRISE FUND - SEWER UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance- Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts:				
Charges for services	\$ 59,509	\$ 62,069	\$ 70,000	\$ (7,931)
Other	29	225	-	225
Total Cash Receipts	59,538	62,294	\$ 70,000	\$ (7,706)
Expenditures:				
Personal services	25,468	29,087	\$ 31,000	\$ 1,913
Contractual	21,142	32,587	23,000	(9,587)
Commodities	3,923	2,732	-	(2,732)
Capital Outlay	-	-	50,401	50,401
Other	29	-	-	-
Debt Service	12,259	12,259	12,260	1
Total Expenditures	62,821	76,665	\$ 116,661	\$ 39,996
Receipts Over (Under) Expenditures	(3,283)	(14,371)		
Unencumbered Cash, Beginning	51,321	48,038		
Unencumbered Cash, Ending	\$ 48,038	\$ 33,667		

The notes to the financial statements are an integral part of this statement.

**CITY OF LITTLE RIVER, KANSAS
ENTERPRISE FUND - SOLID WASTE FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)**

	Prior Year Actual	Current Year		Variance- Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts:				
Charges for services	\$ 26,429	\$ 27,575	\$ 27,000	\$ 575
Expenditures:				
Contractual	25,560	26,670	\$ 39,359	\$ 12,689
Receipts Over Expenditures	869	905		
Unencumbered Cash, Beginning	11,658	12,527		
Unencumbered Cash, Ending	\$ 12,527	\$ 13,432		

CITY OF LITTLE RIVER, KANSAS

STATEMENT OF CHANGES IN LONG-TERM DEBT
For the Year Ended December 31, 2010

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
Note Payable: KDHE	2.75%	9/1/2006	190,383	3/1/2006	\$ 161,732	\$ -	\$ 7,866	\$ (7,866)	\$ 153,866	\$ 4,394

CITY OF LITTLE RIVER, KANSAS

SCHEDULE OF MATURITY OF LONG-TERM DEBT
For the Year Ended December 31, 2010

	YEAR								Total
	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026	Total
PRINCIPAL									
Note Payable:									
KDHE - Sewer Revenues	\$ 8,083	\$ 8,307	\$ 8,537	\$ 8,774	\$ 9,016	\$ 48,968	\$ 56,134	\$ 6,047	\$ 153,866
INTEREST									
Note Payable:									
KDHE - Sewer Revenues	4,176	3,952	3,722	3,485	3,243	13,184	4,309	83	36,154
TOTAL PRINCIPAL AND INTEREST	\$ 12,259	\$ 12,259	\$ 12,259	\$ 12,259	\$ 12,259	\$ 62,152	\$ 60,443	\$ 6,130	\$ 190,020

The notes to the financial statements are an integral part of this statement.

CITY OF LITTLE RIVER, KANSAS
DISCRETELY PRESENTED COMPONENT UNIT - LIBRARY BOARD

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts:		
City of Little River	\$ 8,100	\$ 8,343
Grants	3,500	3,830
South Central Kansas Library System	4,210	4,314
Union Township	3,300	300
Rockville Township	300	2,100
State of Kansas	440	399
Donations	-	1,115
Interest	20	22
Miscellaneous	430	1,032
	<hr/>	<hr/>
Total Cash Receipts	20,300	21,455
	<hr/>	<hr/>
Expenditures:		
Personal Services	7,816	11,159
Books and Magazines	8,747	3,563
Meeting and Travel	-	770
Phone and Internet	871	989
Postage	482	559
Summer Reading	447	753
Supplies	1,231	3,242
Janitorial	150	-
Computer	-	1,945
Miscellaneous	799	699
	<hr/>	<hr/>
Total Expenditures	20,543	23,679
	<hr/>	<hr/>
Receipts Over Expenditures	(243)	(2,224)
	<hr/>	<hr/>
Unencumbered Cash, Beginning	23,643	23,400
	<hr/>	<hr/>
Unencumbered Cash, Ending	\$ 23,400	\$ 21,176
	<hr/>	<hr/>

CITY OF LITTLE RIVER, KANSAS
AGENCY FUNDSSTATEMENT OF CASH RECEIPTS AND EXPENDITURES
For the Year Ended December 31, 2010

<u>Fund</u>	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Clutter Hill	\$ <u>-</u>	\$ <u>609,180</u>	<u>579,131</u>	\$ <u>30,049</u>

CITY OF LITTLE RIVER, KANSAS

NOTES TO SPECIAL FINANCIAL STATEMENTS

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Reporting Entity

The City of Little River is a municipal corporation governed by an elected six-member council. These financial statements present the City of Little River (the primary government) and its component unit. The component unit is included in the city's reporting entity because of the significance of its operational and financial relationship with the city.

Discretely Presented Component Unit - The component units section of the financial statements includes the financial data of the discretely presented component unit. This component unit is reported separately to emphasize that it is legally separate from the city. The governing body is appointed by the city.

Library Board - The City of Little River Library Board operates the city's public library. Acquisition or disposition of real property by the board must be approved by the city. Bond issuances must also be approved by the city. The governing body is appointed by the city.

Fireman's Relief Association - The Association is not a component unit because the city exercises no oversight responsibility and has no accountability for its fiscal matters. The Firemen's Relief Association provides insurance and other benefits to firemen. The association's board consists of firefighters elected by popular vote. Kansas statutes provide for funding.

(b) Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for separately. Funds are classified into three categories: governmental, proprietary and fiduciary. Within each of these three categories there are one or more fund types. The city used the following fund types:

Governmental Fund Types

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Operating Fund - This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. This fund is charged with all costs of operating the government for which a separate fund has not been established.

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources other than special assessments expendable trusts or major capital projects that are legally restricted to expenditures for specified purposes.

Debt Service Funds - These funds are established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds and Special Assessment Funds.

Capital Project Funds - These funds account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by Proprietary and Trust funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Proprietary Fund Types

These funds account for operations that are self-supporting through user charges. The funds included in this category are Enterprise Funds and Internal Service Funds.

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal service Funds - These funds are established to account for the financing of goods or services provided by one department or other departments of the City on a mostly cost-reimbursement basis.

Fiduciary Fund Types

These funds account for assets held by the City as a trustee or agent for individuals, private organizations and other units of governments. These funds are as follows:

Expendable Trust Funds - These funds are used to account for funds that are to be used for expenditures incurred by City employees and for funds held in escrow for other parties.

Agency Funds - These funds are used to account for assets received for, held for, and disbursed to individuals, other State and Local Government unit funds or other governmental or private sector organizations.

(c) Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

(d) Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance: encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. General fixed assets that account for the land, building and equipment owned by the municipality are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes and compensated absences are not presented in the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(e) Budget and Tax Cycle

Kansas statutes require that an annual operating budget be legally adopted for the General Operating Fund, Special Revenue Funds (unless specifically exempted by statute), Debt Service Funds and Enterprise Funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding year on or before August 1.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5.
3. Public hearing on or before August 15, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than *ad valorem* property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year end.

A legal operating budget is not required for Capital Project Funds and Agency Funds.

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes or by the use of internal spending limits established by the governing body.

(f) Special Assessments

Projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Bond and Interest Fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Bond and Interest Fund.

(g) Subsequent Events

Subsequent events have been evaluated through July 5, 2011, which is the date the audited financial statements were issued.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

The clerk did not keep the required fund encumbrance records or unencumbered budget balances. These are violations of K.S.A. 10-1117 and 79-2934.

3. CASH AND INVESTMENTS

(a) Deposits

At December 31, 2010, the carrying amount of the City and its component unit deposits, including certificates of deposit, was \$630,834. The bank balance was \$642,224. The difference between the carrying amount and the bank balance is checks outstanding and deposits in transit. Of the bank balance \$250,000 was covered by FDIC insurance and the remaining \$380,834 was collateralized by pledged securities held under safekeeping receipts issued by a third-party bank in the bank's name with the City listed as pledgee and deposit surety bonds.

(b) Investments

Kansas statutes authorize the City to invest in U.S. Treasury Bills and Notes, repurchase agreements, and the Kansas Municipal Investment Pool. All investments must be insured, registered, or held by the City or its agent in the City's name. The Kansas Municipal Investment Pool is not subject to the risk category classifications. The City had no investments at December 31, 2010.

4. PENSION COSTS AND EMPLOYEE BENEFITS

(a) Defined Benefit Pension Plan

Plan Description. The City participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (400 SW 8th Avenue, Suite 200; Topeka, KS 66603-3925) or by calling 1-800-228-0366.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for calendar year 2010 is 6.14%. The City employer contributions to KPERS for the years ending December 31, 2010, 2009, and 2008 were \$8,301, \$8,988 and \$7,929 respectively, equal to the statutory required contributions for each year.

(b) Other Employee Benefits

Vacation – Full-time employees are entitled to paid vacation leave time according to the following schedule: provided, no paid vacation leave time may be taken during the first twelve months of employment with no carry over from year to year.

<u>Years of Service</u>	<u>Per Year</u>
After 1 Year Continuous Employment	5 Days
After 2 Years Continuous Employment	10 Days
After 3 Years Continuous Employment	15 Days

All vacation was used as of December 31, 2010.

Sick leave – Full-time employees, shall be entitled to sick leave with pay for absences resulting from illness, injuries, accidents or other physical incapacity, occurring either on or off the job.

Amount of sick leave – Full-time employees shall earn eight hours of sick leave for each full month of service.

Accumulation of sick leave – No employee may accrue more than 480 hours of sick leave. An employee shall not be paid for any unused sick leave upon termination of his or her employment with the City.

5. CLAIMS AND JUDGMENTS

The City is exposed to various risks of loss related to property loss, torts, and errors and omissions. The City has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage in 2010 and there were no settlements that exceeded insurance coverage in 2010.

During the ordinary course of its operations the City is a party to various claims, legal actions and complaints. It is of the opinion of the City's management that these matters are not anticipated to have a material impact on the City.

6. INTERFUND TRANSFERS

From	To	Statutory Authority	Amount
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None during year ended December 31, 2010